

# **PMO 526: Health Services Organization**

## **Health Care Economics Paper #4**

Consensus Statement  
of the  
Purple People Protectors

Jon Champine  
Elizabeth Berbano  
Mark Duffy  
Fran Hall  
Suezane Holtzclaw  
Gregg Langham

CDR Whitmeyer  
15 OCT 2002

Issue: Discuss the various methods used to allocate scarce resources in the US health care system. What are the implications of these allocations (in terms of quality, outcomes, efficiency, and equity) and how can the “system” improve its performance by addressing these allocative decisions?

Health care costs in the United States continue to aggressively escalate despite a stagnant economy. Without a corresponding increase in available funds, resources become extremely limited. How are these limited funds and resources allocated? This conundrum is compounded by the current reduction in work force, increasing layoffs, and wage reductions making more people unable to access the health care system. With every dollar spent and resource used vitally important, we must choose very wisely on how they are allocated. This paper examines health care economics and will discuss the best system to ensure that every dollar and resource is consumed for maximum benefit.

There are two main theories for a nation to base allocation in their health care system: free market or social justice. We will also look at a combination of the two. When discussing these theories it is important to remember that in their purest form they do not truly exist, but in order to discuss their true merits we will have to assume that they do. For comparison between the two theories four categories will be examined: Quality, Outcome, Efficiency, and Equity. These four categories can be examined from a wide variety of aspects: patient, provider, clinic, health care organization, and even national policy. Some general definitions to facilitate further analysis:

Outcome is the result of treatment or procedure, and can be either medical or administrative.

Quality can best be described as an interpretation or measure of outcome and can be either positive or negative.

Efficiency is how easily a patient moves through the health care system or how well resources or dollars are used.

Equity can be best described as “fairness” or equal access to treatment for everyone.

The free market system is designed to allow for maximum competition and is skewed towards those who can afford it. It can be also be characterized as being more immediately responsive and influenced by consumer demand, and more innovative.

In the freemarket system, outcomes are complicated by many factors: insurance, consumer ignorance, the media, and provider advice to name a few. Insurance companies and HMO's can dictate outcomes. By establishing what is covered for each particular diagnosis they have done two things – 1) Eliminate

unnecessary treatment plans and streamline care, and 2) Limit or hamper the provider's ability to treat outside the accepted "norm" as defined by the HMO/insurance company. We will discuss the implications of these consequences later.

Provider advice can lead to increased consultations or extraneous care within the limits of the insurance system. A provider or clinic may get kickbacks for referrals. In this system care is most aggressive and is also susceptible to fraud.

As indicated above, consumer demand, in essence, drives health care. Previous papers have discussed the media's influence on consumer beliefs about health care. As a society the United States is enamored with technology. The pride we have in our technology becomes the focus of future treatment plans. The prevalent thought is that we can solve anything with technology. Society likes the idea of being able to minimize treatment plans so that is where the money goes. Therefore, money flows into developing new technology, whether it is a new diagnostic tool, pharmaceutical, or computer program to ease clerical workload. Obesity is one of the country's top medical issues, however, there is far more money advocated for developing weight loss pills than in educating about diet and exercise because that is what the public wants, a simple solution. These advances are most possible in the free market system. How well these work or how many they will effect is open to interpretation. This leads us to a discussion on quality.

The quality of the free market system theoretically should be high due to competition. It can be described as the best possible care given based on a fixed price to a certain number of people. The incentive to provide "better" care than any other provider should stimulate high quality care. The one drawback to competition is that it may create some redundancies in protocol or administrative procedures which could result in some inefficiency. The technology developed by the free market system is responsible for most advances in medicine but may not always be economical or beneficial. The billions of dollars spent on weight loss medication development has so far proven ineffective. The PSA test is practically demanded by the male population, but is it an effective tool? Expectations are high in the free market system. Quality is also expected as 100% effective treatment. If the public is paying good money for treatment and any adverse effect occurs, even if it is a known complication and within the scope of care, is it poor quality treatment? The paying customer might think so because of the high expectations. The mechanics of a pay for service system may decrease quality (at least as perceived by the patient) as providers try to see as many patients as feasible resulting in less time per patient. Insurance/HMO's have had an interesting effect on quality of care due to their effects on efficiency. By speeding up and limiting some treatment options they were able to prevent unnecessary treatments, increasing quality of care. However, restricting treatment options has the side effect of limiting options in the "non-normal" treatment case. Quality is ultimately based on patient perspective, as is who

pays for care. Lee gives an example about employees opting for a less expensive health care plan (and inferentially to them, less quality) when they had to pay the difference between the less expensive and a more expensive health care plan. This also correlates to the equity of the free market system.

Free market systems are very efficient. Increased demand assists in containing costs. It forces care to be more efficient to eliminate wasted monies and resources as competition for the patient's health care dollar increases...As indicated above, provider income may be dependent on patient encounters. Insurance/HMO's streamlining of care due to free market impetus also improves efficiency and some quality of care. A clinic may decide to discontinue a service, regardless of severity, if they don't get enough patients to make economically feasible. As discussed previously, the repetitive efforts as a result of competition may decrease efficiency, but the free market system is still the best in terms of efficiency.

Equity in the free market system is skewed toward the employed and wealthy. In a true free market system the poor would not receive care. Are economics above the welfare of the patient? Fame and wealth could even be used to put someone further ahead in a treatment plan, such as an organ replacement. Ethical considerations would say this could not happen, but the subject has been broached.

In contrast to the Free market system, the social justice system is more equitable and is based on need. This would classify health care as a right or an entitlement regardless of patient disposition. When looking at the merits of a social justice system, it is helpful to consider it as a population based system.

Outcomes in the social justice system would not be as responsive to the media. Money may be allocated based more on science need than the latest health care scare. Patients would be easier to follow in a regulated system. .

The quality of care won't be as dependent on technological advances, which would not be as rapid as in the competitive market. When considering quality of care, would it be better to increase CA survival by 6 months or monitor patients for a longer period of time following exposure to a disease? Patients are easier to monitor in a social justice system. Patients might feel their quality of care is better in this system because their providers would spend more time per visit and may order more treatment than in the free market system. However, in reality, time spent does not necessarily equal quality care.

This increased attention to the patient ultimately results in decreased efficiency. Also, when a patient does not have an expenditure related to the visit they will utilize health care services more often. This will clog the system and ultimately delay care for those who really need it. Our military is close to a social justice system. In the Air Force, Tricare members accessed the health care

system twice as frequently when compared to the general population. There are no incentives to be efficient in the social justice system. Bottom line is that when the patient and provider has little regard for cost or resources, efficiency significantly decreases.

A social justice system is unequivocally equitable. Treatment for all seems like an ideal situation. However, Deaton remarked that providing care to the underprivileged should not compromise care to everyone else. Also, as this system would be financed by taxes, should I have my tax dollars go to treat someone who has smoked for forty years even when they have known the risks? Is medical care a right or a privilege? In this system it is a right.

The combination of social justice and free market systems is what is currently in place today, however fragmented it may be. This is the only system that is feasible in the US for a multitude of reasons.

Achieving a perfect balance between the two models is idealistic but what we need to target to try and fix the health care system. The attitude of doing something for the greatest good for the greatest number of people will allow us to decide on how to allocate our precious and sparse resources. Putting limitations on the free market system without stifling competition and increasing access to care to the underprivileged are the two points that need to be resolved in order for this combination model to work. This would take the positive aspects of outcome, quality, and efficiency and merge it with the positive outcome (science not media based) and equity of the social justice system.

In order for this to occur we looked at several possibilities. Copayments have put some fiscal responsibility on those who access the system, thereby hopefully making it more efficient. For those who are unemployed or don't have company insurance a credit for health care system could be put in place. People below the poverty line, for instance, would do volunteer work for the government in a wide variety of things, such as trash pickup, painting curbs, etc and get health care "credits" which they could use when they accessed care. The idea of health stamps, similar to food stamps, was also discussed. Cost for healthcare access tied to lifestyle choices is another area that could use further exploration. All of these ideas require more government intervention that would require money taken from other sources. However, the cost/benefit may eventually make it a worthwhile idea. Another idea for increasing access to care would be to have basic treatment available for everyone. Is it ethically responsible to provide different levels of care based on socioeconomic status? This may be hard to pass politically, but it is better than not treating them by any means.

To help the free market system control costs, it would seem that a national board of health care would have to be created and set the standards of care rather than insurance/HMO's. It could target areas of research needed to still allow the free market to flourish and bring technological advances while giving it

some guidance so it doesn't trip over itself in trying to do so. It is an ideal, and one that may not be politically possible but is an alternative.

In conclusion, with health care costs rising and a stagnant economy the allocation of our resources is even more important than ever before. A combination model of social justice and free market systems is the best health care model to ensure that the greatest good gets done for the greatest number of people. Even though this has been identified, it is easily distinguishable that it is extremely difficult to do it effectively. Health care reform really means health care financing reform – which may ultimately allow us to reach the goal of the greatest good for the greatest number of people while having a semblance of universal access to care for the whole nation.